

Message Text

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ACTION STR-07

INFO OCT-01 EUR-12 IO-13 ISO-00 STRE-00 AGRE-00 CEA-01
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INT-05 L-03 LAB-04 NSAE-00 NSC-05 PA-01 CTME-00
AID-05 SS-15 ITC-01 TRSE-00 USIA-06 SP-02 SOE-02
OMB-01 DOE-15 AF-10 ARA-10 EA-10 NEA-10 OIC-02
/163 W

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P 231714Z MAR 78
FM USMISSION GENEVA
TO SECSTATE WASHDC PRIORITY 7612
INFO AMEMBASSY OTTAWA

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USMTN

ACTION STR

STR PASS CODEL

E.O. 11652: N/A
TAGS: MTN, ETRD, CA
SUBJECT: U.S.-CANADA TOUR D'HORIZON BILATERAL, MARCH 22

SUMMARY: U.S. MTN DEL (AMBASSADOR MCDONALD ET AL) MET WITH CANADA MTN DEL (AMBASSADOR GREY ET AL) ON MARCH 22 FOR A WIDE-RANGING REVIEW OF MAJOR MTN ISSUES. THE CANADIANS PUSHED HARD FOR THEIR FAMILIAR CONCERNS WHILE THE U.S. EMPHASIZED THE NEED TO MOVE THE NEGOTIATIONS ALONG SO THAT THE PRINCIPAL ISSUES COULD BE RESOLVED BY SUMMER. THE SESSION WAS USEFUL IN DELINEATING AREAS WHERE CANADA WILL NEED PRODDING IN THE MONTHS AHEAD, AND IT GAVE THE CANADIANS AN OPPORTUNITY TO LET OFF STEAM. END SUMMARY.

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1. TIMETABLE: GREY PROBED INTENSIVELY AND CAUSTICALLY, AS TO WHAT THE U.S. WANTED TO ACCOMPLISH IN TERMS OF AN OVERALL AGREEMENT IN JULY. SEVERAL TIMES GREY NOTED THAT HE DID NOT WANT TO SEE CANADA'S INTERESTS "JETTISONED" IN PURSUIT OF AN "ILL-CONCEIVED" TIMETABLE. HE NOTED THAT THE U.S. HAD DECIDED ON A TIMETABLE WITHOUT CONSULTING

CANADA, AND WAS DISTURBED THAT THE U.S. HAD CONCEDED SUBSTANCE TO THE EC ON AGRICULTURE AND THE FORMULA WITHOUT GETTING MUCH IN RETURN. GREY NOTED THAT CANADA MIGHT SCHEDULE AN ELECTION FOR JUNE, AND ALTHOUGH CANADIAN ELECTIONS ARE NOT NORMALLY DISRUPTIVE IT MIGHT BE DIFFICULT TO GET CANADIAN MINISTERS TOGETHER AT THAT TIME. GREY EXPRESSED CONTINUED SKEPTICISM ABOUT U.S. ABILITY TO OBTAIN CONGRESSIONAL APPROVAL OF NTM AGREEMENTS. HE ASKED FOR A LEGAL OPINION AS TO WHETHER OR NOT CONGRESSIONAL APPROVAL AUTOMATICALLY AMENDED U.S. STATUTES NECESSARY TO CARRY OUT A TRADE AGREEMENT. MCDONALD EXPLAINED, IN GENERAL TERMS, WHAT A JULY AGREEMENT MIGHT INCLUDE, NOTED THAT WE HAD NOT SACRIFICED SUBSTANCE FOR A TIMETABLE, AND EXPLAINED THAT THE TIMING REFLECTED A U.S. DECISION THAT JULY THROUGH THE SPRING OF 1979 PRESENTED THE MOST FAVORABLE POLITICAL WINDOW TO CONCLUDE THE MTN. GREY REPLIED THAT IN JULY, CANADA MIGHT AGREE TO CERTAIN "STATEMENTS OF PRINCIPLE" BUT DID NOT SEE ENOUGH TIME TO COMPLETE WORK ON TARIFFS. GREY CONCLUDED THAT THE U.S. WAS NOT PARTICULARLY SPECIFIC ABOUT WHAT IT WANTED IN JULY, AND ASKED TO BE CONSULTED ABOUT THE SCOPE AND CONTENT OF A JULY SETTLEMENT, AS THE DATE GREW CLOSER.

2. TARIFFS: GREY PRAISED THE U.S. INDUSTRIAL TARIFF OFFER AS BEING RESPONSIVE TO CANADIAN REQUESTS, ALTHOUGH A FEW INDIVIDUAL ITEMS SUCH AS ZINC GAVE HIM CONCERN. HE LIMITED OFFICIAL USE

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LOOKED FORWARD TO THE DETAILED EXAMINATION OF EACH OTHERS LISTS IN APRIL. BOTH SIDES AGREED THAT THE ABILITY OF THE U.S. AND CANADA TO CONCLUDE A MAXIMUM BILATERAL PACKAGE WOULD BE AFFECTED BY THE DEGREE TO WHICH JAPAN AND THE EC WERE FORTHCOMING IN KEY TARIFF AREAS. MCDONALD INDICATED THAT LACKING DATA FROM THE CANADIANS, WE HAD NOT YET COMPLETED OUR ANALYSIS OF THEIR TARIFF OFFER BUT WOULD BE READY FOR DETAILED TALKS IN APRIL. GREY CITED TECHNICAL DIFFICULTIES BUT PROMISED THE TARIFF-LINE LIST OF FORMULA OFFERS WITHIN A WEEK. THE U.S. SAID THAT BASED ON A VERY PRELIMINARY ANALYSIS WE BELIEVED THAT THE CANADIAN OFFER PROVIDED A SATISFACTORY BASIS ON WHICH TO BUILD FURTHER TO A BALANCED LEVEL OF AGREEMENT. GREY DID NOT QUARREL WITH OUR DESIGNATION OF THE CANADIAN OFFER AS BEING OF A LESSER QUALITY THAN THE U.S. OFFER. WE EXPRESSED DISAPPOINTMENT AT THE SHALLOW REDUCTION ACCORDED CHEMICALS OF MAJOR INTEREST TO THE U.S. AND THE CANADIANS INVITED US TO SPECIFY PARTICULAR ITEMS WHERE IMPROVEMENT WAS DESIRED. GREY WANTED THE U.S. TO KNOW THAT CANADA HAD FOUND THE JAPANESE OFFER TOTALLY UNACCEPTABLE, AND RATHER THAN GO THROUGH THE TIME-CONSUMING PROCESS OF SEEKING IMPROVEMENT IN INDIVIDUAL ITEMS, IT HAD DECIDED ON

THE TACTIC OF REJECTING THE JAPANESE OFFER AS A BASIS FOR
NEGOTIATION AND INTENDED TO INFORM AMBASSADOR SAWAKI
SHORTLY. IN RESPONSE TO GREY'S REQUEST FOR U.S. SUPPORT
OF THIS MOVE, MCDONALD POINTED OUT THAT THE U.S. WAS
ALREADY APPLYING CONSIDERABLE PRESSURE TO FORCE JAPAN TO
MAKE SUBSTANTIAL CHANGES IN ITS OFFER. GREY STRONGLY
URGED THE U.S. TO IMPROVE ITS FISH OFFER, SAYING THAT
THIS ISSUE WAS HIGHLY SENSITIVE POLITICALLY AND A NECES-
SARY INGREDIENT TO OBTAIN A FINAL PACKAGE THAT HAD PROPER
REGIONAL BALANCE.

3. SECTORS: THE CANADIANS WERE ANXIOUS TO GET DETAILS
ON A POSSIBLE U.S. APPROACH IN THE STEEL SECTOR. WE SAID
THAT THE ISSUE IS STILL BEING DISCUSSED IN WASHINGTON AND
THERE WAS AS YET NO DECISION IN WHAT FRAMEWORK WE WOULD
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HANDLE THE STEEL PROBLEM. GREY STATED THAT CANADA HAD IMPORTANT STEEL EXPORTS TO THE U.S., WOULD BE AFFECTED BY ANY DECISION AND THEREFORE CLOSE AND EARLY CONSULTATION WAS ESSENTIAL. THE CANADIANS INDICATED THEY WERE PURSUING THEIR SECTOR OBJECTIVES IN SUBSTANCE RATHER THAN FORM. IN FORESTRY PRODUCTS AND NONFERROUS METALS, THEY SAW CONSIDERABLE PROGRESS ON THE TARIFF SIDE AS A RESULT OF THE U.S. OFFERS, THOUGHT DISPUTE SETTLEMENT WAS HEADED IN THE RIGHT DIRECTION, BUT FOUND LITTLE PROGRESS IN THE SAFEGUARD AREA AS RELATED TO MARKET ACCESS STABILITY (E.G. TIGHTER RULES ON RESORT TO IMPORT MEASURES, INJURY TEST FOR COUNTERVAILING DUTIES).

4. AGRICULTURE: AS WITH INDUSTRIAL PRODUCTS GREY SAID LIMITED OFFICIAL USE

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THAT THE AIM SHOULD BE TO IMPROVE THE OFFERS RATHER THAN TALK IN TERMS OF REDUCING THE SCOPE OF OFFERS. HE CALLED FOR HARMONIZATION OF RATES FOR POTATOES, BEEF AND LIVE CATTLE, AND CORN. ON POTATOES, CANADA WAS WILLING TO DISREGARD THE RECOMMENDATION OF THE TARIFF BOARD FOR GREATER PROTECTION, IF THE U.S. WOULD AGREE TO RATE HARMONIZATION, GIVING UP OUR TARIFF RATE QUOTA. FOR CORN, CANADA WAS PREPARED TO MATCH THE U.S. RATE PROVIDED WE REDUCED BELOW 8 CENTS PER BUSHEL (I.E. TO BEYOND TRADE ACT AUTHORITY). THE HARMONIZATION REQUESTED FOR CONSUMER-PORTION BEEF CUTS WOULD ALSO REQUIRE ADDITIONAL AUTHORITY. GREY SAID THAT HE COULD UNDERSTAND THE CONCERN EXPRESSED BY MCDONALD ON THE PROPOSAL BY CANADA TO RAISE PROTECTION IN THE FRUITS AND VEGETABLES SECTOR BY MEANS OF AN ARTICLE 28 ACTION. BUT GREY INDICATED THAT IN A POLITICAL SENSE THE GOVERNMENT HAD NO CHOICE BUT TO ACCEPT MOST OF THE TARIFF BOARD'S RECOMMENDATIONS. CANADA WOULD PURSUE THIS ACTION OUTSIDE THE MTN FRAMEWORK AND WOULD "PAY ITS WAY OUT OF ITS OBLIGATIONS" IN ACCORDANCE WITH GATT PRACTICE. HE THOUGHT THIS COULD BE DONE BY COMPENSATING CONCESSIONS WITHIN THE FRUITS AND VEGETABLES SECTOR, AND BY GAINS ACCRUING TO THE U.S. AS A RESULT OF REMOVAL OF PREFERENTIAL MARGINS ENJOYED BY AUSTRALIA. MCDONALD REITERATED THE IMPORTANCE OF SATISFACTORY PROGRESS ON AGRICULTURE BUT RESERVED COMMENT ON THE CANADIAN AGRICULTURAL OFFER WHICH HAD ONLY JUST BEEN RECEIVED.

5. CUSTOMS VALUATION: QUERIED ON THE CANADIAN POSITION, GREY SAID THE CUSTOMS VALUATION ISSUE WAS VERY DIFFICULT FOR CANADA. THERE WAS WIDESPREAD FEAR IN THE BUSINESS COMMUNITY THAT A CHANGE IN THE VALUATION BASE WOULD MEAN AN ADDITIONAL LOSS OF PROTECTION SUPERIMPOSED ON ALREADY

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SUBSTANTIAL TARIFF CUTS. ALTHOUGH CONSULTATIONS WITH THE BUSINESS COMMUNITY HAD BEEN COMPLETED, GREY THOUGHT THAT FOR SOME TIME CANADA WOULD HAVE TO MAINTAIN ITS PRESENT POSTURE OF AGREEING ONLY TO PARTICIPATION IN EXPLORATORY AND TECHNICAL TALKS. EVENTUALLY CANADA WOULD HAVE TO MAKE A DECISION WHETHER TO ENTER THE NEGOTIATIONS FORMALLY, BUT THE CANADA DEL WOULD NEED A CLEARER PICTURE OF THE EMERGING CODE BEFORE APPROACHING MINISTERS. HE SUGGESTED THAT THE VALUATION CODE WOULD PROBABLY HAVE TO BE SELF-BALANCING, SOLD ON ITS OWN MERITS AS AN IMPROVEMENT OVER PREVIOUS PRACTICE. WILLINGNESS OF THE EC TO ADOPT FOB AS A BASIS FOR VALUATION WOULD MAKE THE CODE MORE ATTRACTIVE TO CANADA. AFTER PRODDING BY THE U.S. ON TIMING, GREY THOUGHT THE ISSUE OF CANADIAN FORMAL PARTICIPATION MIGHT BE PRESENTED TO MINSTERS FOR DECISION IN ABOUT A MONTH.

6. SAFEGUARDS: GREY'S PRESENTATION ON SAFEGUARDS WAS DIFFICULT TO FOLLOW. HE REPEATED THE ARGUMENT ALREADY MADE IN THE DISCUSSION ON SECTORS RE THE NEED FOR AN EFFECTIVE MECHANISM FOR CONSULTATION, SURVEILLANCE AND DISPUTE SETTLEMENT, WAS APPREHENSIVE ABOUT SELECTIVITY AND GRUMBLED THAT CANADA WOULD NOT SIGN A SAFEGUARD CODE THAT WAS WEIGHTED IN FAVOR OF THE BIG POWERS.

7. COMMENT: THIS SESSION, ALTHOUGH TEDIOUS AND PREDICTABLE, WAS HELPFUL IN GIVING THE CANADIANS THE OPPORTUNITY OF PUTTING FORWARD THEIR VIEWS IN A HIGH-LEVEL FORUM. CANADIAN RESENTMENT OVER BEING EXCLUDED FROM THE BIG THREE DECISION-MAKING PROCESS WAS CLEARLY INDICATED IN GREY'S QUERULOUS QUESTIONING ON TIMETABLE. THE CANADIANS CAN BE EXPECTED TO PURSUE AGGRESSIVELY THEIR PAROCHIAL INTERESTS. WHILE WE DO NOT EXPECT THEM TO BE A DISRUPTIVE FACTOR IN THE NEGOTIATIONS, THEY WILL NEED CONTINUOUS PRODDING TO KEEP THEM IN STEP WITH THE TIMETABLE AND OCCASIONAL REMINDERS OF THE BIG STAKE CANADA HAS IN THE MAINTENANCE OF THE U.S. OFFER.

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8. DRAFTED BY HAMERSCHLAG/MALISH. CULBERT

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Message Attributes

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